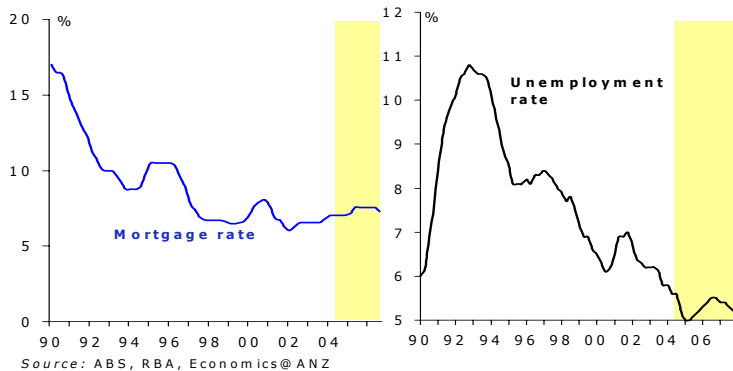
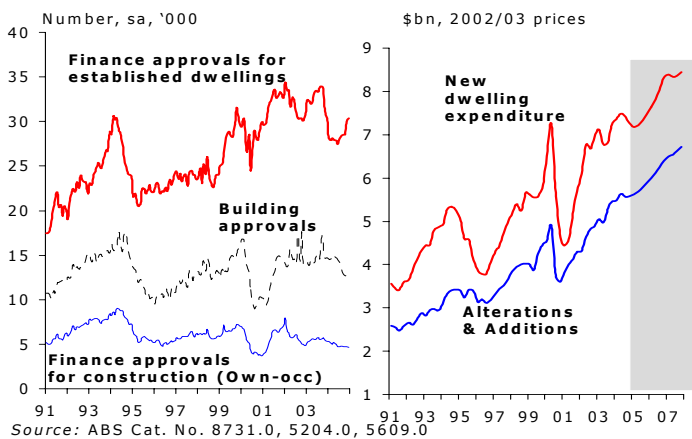


ANZ Residential Snapshot



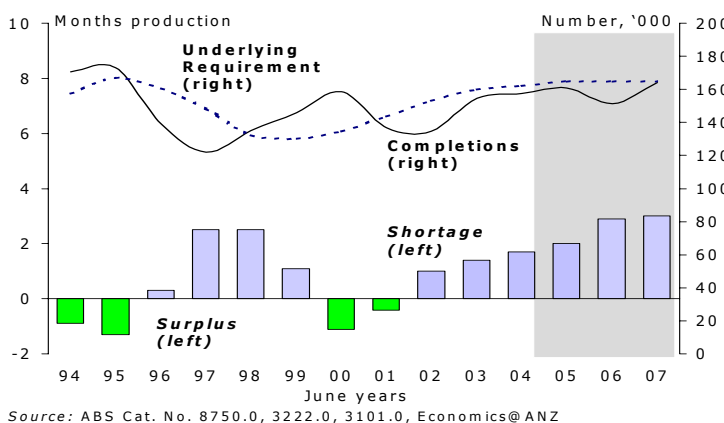
Interest rates to rise soon

- The RBA signalled in February that an interest rate rise is imminent. While it has not changed its forecast for underlying inflation (2½% by the end of 2005), it does see upside risk. The RBA also sees the economy as being stronger than suggested by the GDP and retail trade data.
- We now see the RBA lifting the cash rate ¼ pc point in March and again in April or May, to 5¾% pa.



Construction to take a breather

- Forward indicators of residential construction have fallen in recent quarters but already there are hints of a bottom emerging, particularly in the owner-occupied sector.
- While further falls in 'work done' are expected, these will be moderate and short-lived, despite two more interest rate rises through 2005.
- The economy's strength more generally (especially labour market) combined with strong housing market fundamentals will help sustain residential activity.



We're not building enough homes

- Solid population growth, driven by healthy international migration and a continuing trend towards smaller households are providing a solid base for demand (estimated at 165,000 dwellings per annum).
- Australia's housing market is expected to have considerable pent-up demand in the years ahead as activity falls short of this requirement.
- This condition will be critical (yet fortuitous) to an orderly adjustment in house prices.

Australia - key housing market forecasts

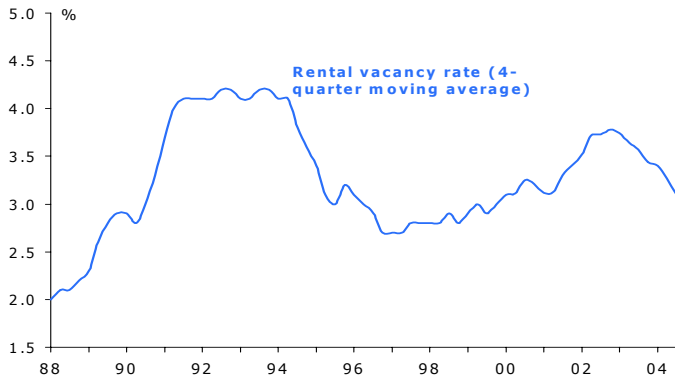
	2002/03	2003/04	2004/05 (f)	2005/06 (f)
Real Dwelling Expenditure (% change)	14.7	7.4	1.5	4.9
Number of Dwelling Starts ('000)	169.7	172.0	154.6	160.5
Mortgage Credit Growth (% change)	19.0	20.2	14.9	13.5
Established House Prices (% change)	18.0	16.7	2.3	0.8
Dwelling Finance Approvals (% change, value)	16.5	13.5	-4.1	0.9

This publication was finalised on 21 February 2005

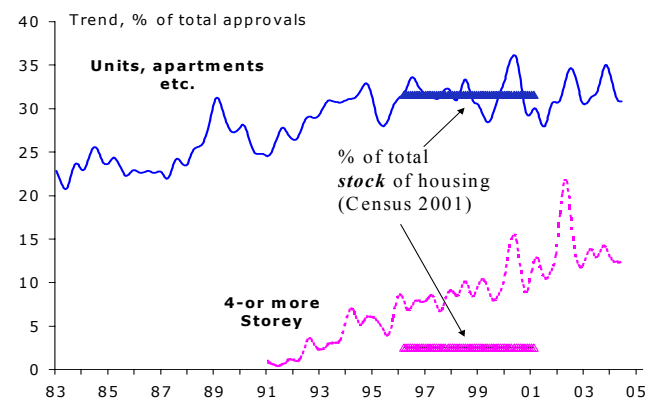
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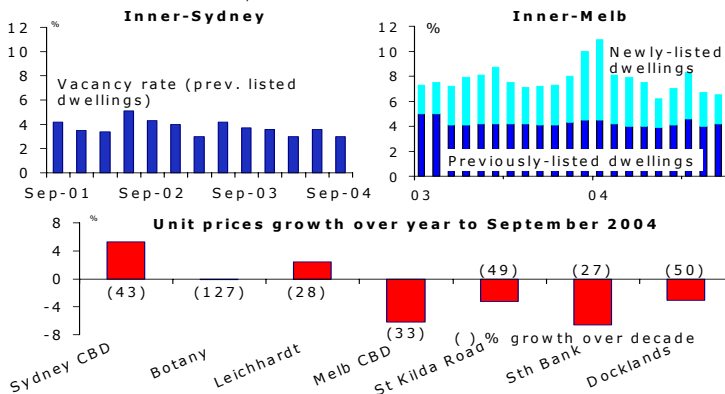
Contact details for this publication: Ange Montalti (03) 9273 6288



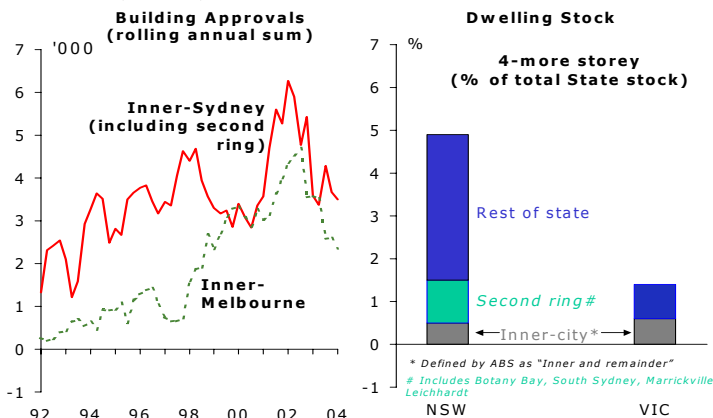
Source: REIA



Source: ABS Cat. No. 8731.0, 2001 Census



Sources: ABS; Residex, Economics@ANZ.



Sources: ABS; Economics@ANZ.

Tightness is also showing in rental markets

- Fundamentals in rental markets also appear to be improving. Vacancy rates are heading lower in most capitals and rentals growth has picked up over the past few quarters.
- With the weight of new dwelling supply already having peaked and interest rates rising again, rental market conditions should continue tightening over coming quarters.
- These conditions should gradually allay concerns that investment housing market fundamentals are in a major disequilibrium.

But we may be making too many too high

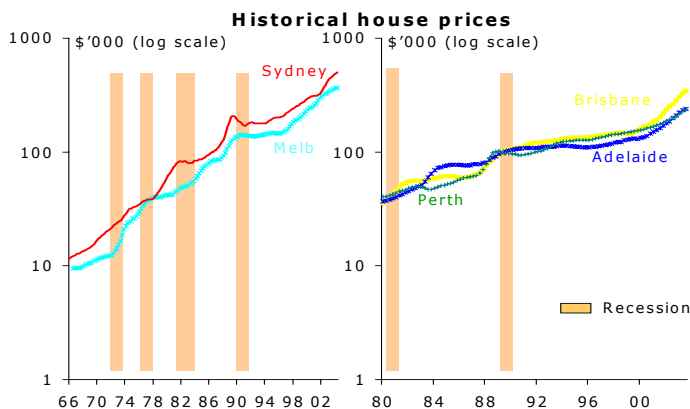
- The past decade has seen little change in the proportion of new homes which are attached dwellings (about 1 in 3).
- Within the 'attached' sector, however, there has been a remarkable shift towards multi-storey development.
- Much of this has been located in and around CBDs, leisure and entertainment precincts and has coincided with a cultural shift which so far is helping to absorb this new supply.

So far so good

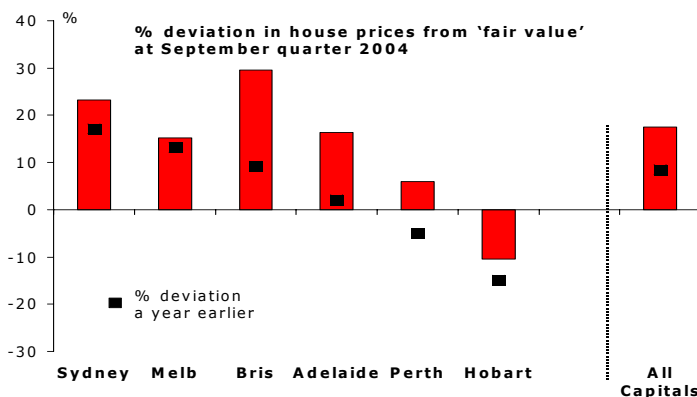
- Indeed, inner-city rental markets are tightening with vacancy rates falling solidly in recent quarters, particularly for newly-built Melbourne apartments.
- A significant burst of new stock coming on to the market over 2005 will be a critical test of the depth of demand for this kind of product. Notable price falls in inner-city localities, have not been 'stress-induced' and will play an important role in 'positioning' the market for longer-term sustainability.

Inner-city apartment activity cools

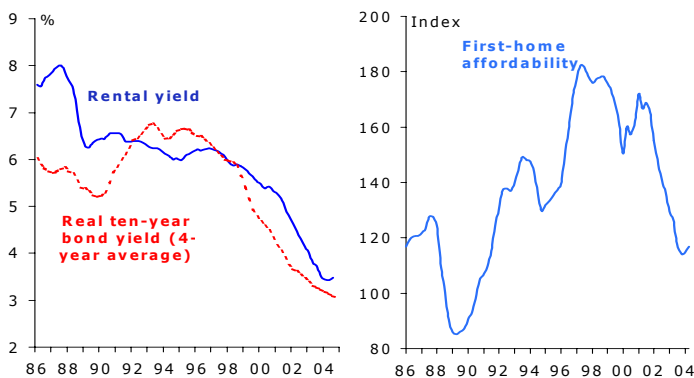
- Providing some comfort is the sizeable decline in inner-city activity levels in the past couple of years. A share of approvals above the corresponding share of existing stock is most probably sustainable for quite some time as the cultural and demographic shifts continue to play out.
- Continued increases in household migration e.g. students, business migrants and exurbians, will be the drivers sustaining this market in the long-term.



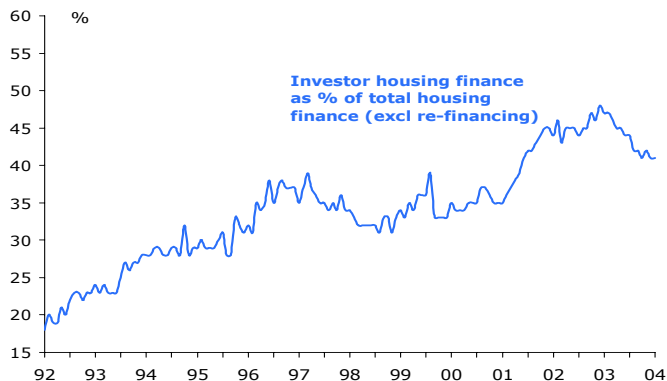
Source: REIA, ABS, Economics@ANZ



Source: ANZ measure of housing affordability, Economics@ANZ estimates



Source: ABS, RBA, Economics@ANZ



Source: REIA

House prices hardly ever fall

- Concerns about the likelihood of major falls in house prices have been over-played. House prices tend to fall only in exceptional circumstances (e.g. in recession following a period of extremely rapid price escalation).
- We are more likely to see price levels stabilise over 2005, consolidate over 2006 and 2007 (implying still moderate growth) and then resuming healthier growth thereafter (assuming no recession).

Houses over-valued by 20%

- It is clear house prices have moved higher than warranted by long-term affordability levels. This is particularly the case in the larger capitals (especially Brisbane).
- The recent stagnation in house prices has begun the process of restoration towards some kind of equilibrium, although full adjustment is likely to take many years (assuming a stable trend in interest rates, this adjustment requires prices to grow more slowly than incomes).

'Prices won't collapse!'

- That the economy will avoid going into recession is a critical pre-condition for ongoing support to price levels.
- Also giving support will be an expected lift in pent-up demand and the gradual realisation that investment fundamentals (as they sit presently) are not that bad.
- There will, however, be resistance to substantially higher prices as affordability limits are soon tested again by interest rates.

Investment housing finance share rises

- More generous tax treatment of capital gains on residential property and demographics have combined to facilitate a **structural** increase in % of housing finance initiated by the investment sector. While a cyclical fall has commenced, we are unlikely to see this share falling much further over coming years.
- This is concomitant with a structural lift in rental tenure, reflecting the long-term 'pricing out' of some buyer segments from the housing market.

ANZ is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
10th Floor 100 Queen Street, Melbourne 3000, Australia
Telephone +61 3 9273 6224
Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited
ACN 005 357 522
Minerva House, PO Box 7, Montague Close, London, SE1
9DH, United Kingdom
Telephone+ 44 207 378 2121
Fax+44 207 378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc.
(Member of NASD and SIPC)
6th Floor 1177 Avenue of the Americas
New York, NY 10036, United States of America
Tel: +1 212-801-9160
Fax: +1 212-801-9163

NEW ZEALAND by:

ANZ Banking Group (New Zealand) Limited.
Level 10 215-229 Lambton Quay Wellington, New Zealand
Telephone +64 4 496 7000,
Fax +64 4 496 7360

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